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C O N F I D E N T I A L SCTION 02 OF 04 NAIROBI 001373

SIPDIS

DEPT FOR AF/E, AF/EPS, EB/IFD/OMA
USAID FOR AFR/DP WADE WARREN, AFR/EA CARRIE THOMPSON AND
JULIA ESCALONA
MCC FOR MALIK CHAKA
LONDON AND PARIS FOR AFRICA WATCHERS

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SUBJECT: KENYA CORRUPTION UPDATE - LOOKING BACK, LOOKING FORWARD

but the essential facts are that Kamlesh Pattni, the central figure in the Goldenberg scandal, borrowed KSh 2.5 billion (around \$40 million at the time) to build the hotel in 1993. Pattni never repaid the loan, and when the lending bank later went belly up, the Central Bank of Kenya (CBK) put the hotel under receivership in an attempt to recover the loan. But the CBK never achieved operational control over the hotel during the following 15 years of protracted legal battles waged by Pattni to maintain control over the hotel and its revenues.

¶4. (SBU) It thus came as a surprise to Kenyans when on April 9, KACC and Pattni jointly announced that the latter would cede all interests and control over the hotel and transfer title to the CBK as security against the original unpaid loan. The KACC hailed the deal as "a landmark in its assets recovery efforts." The hotel had been valued at KSh 2.1 billion in 1997 and is believed to be worth over KSh 7 billion today. The KACC said that Pattni did not receive commitments from the government to drop outstanding criminal investigations in exchange for ceding the hotel. Pattni, a recently born-again Christian now nicknamed "Brother Paul," commented to the press: "For what does it benefit a man to gain the world and then lose his soul... I can build ten more hotels like this with the wisdom from God."

¶5. (SBU) It all looked too good to be true, and sure enough, allegations of scandal hit the press before the KACC could open the champagne to celebrate its victory. Two allegations emerged: First, that Pattni himself was paid off by someone in the government to give up control of the hotel. The second more damning allegation came from a group of private sector watch-dog lawyers, who claimed to have evidence that the hotel had already been secretly sold to a Libyan concern for a throw-away price of KSh 1.6 billion. Given the warming state of relations between Libya and the Kibaki administration in recent years (including persistent rumors that Libya contributed large sums to Kibaki's re-election campaign), the charge had a certain narrative logic.

¶6. (SBU) True or not, the allegations of a second scandal involving the hotel had beneficial results. Both the KACC and the CBK quickly issued statements providing the facts of the case. The CBK pledged it would dispose of the hotel at the earliest opportunity and that the sale would be conducted in accordance with the law. Finance Minister Amos Kimunya followed up by publicly denying the Libyan connection and stating that the hotel would shortly be sold in a transparent legal manner to the highest bidder to maximize taxpayer payback. That said, we have also heard from hotel sources that Pattni cronies continue to control day-to-day management of the hotel and are draining it for cash and using it for favors. Parliament has announced its intention to more fully investigate the case

¶7. (C) Mission comment: As is so often the case, it's hard to know

what really happened here. Pattni's about-face seems too good to be true, so we suspect there was an attempt at some point during the process on the part of someone to illegally profit from the deal. The Libyan connection is speculative, but can't be discounted either. But in any event, thanks to alert watchdogs and the press, whatever conspiracy might have been unfolding appears to have been exposed and nipped in the bud.

Kingpin Kamani Comes Home

18. (C) Suspicions that Pattni had made a deal to escape future prosecution for his crimes were further fueled in mid-May, when the press extensively reported on the return to Kenya of Deepak Kamani. Second only to Pattni in terms of infamy for having fleeced Kenyans over the years (together with GOK officials), Kamani was the private sector mastermind behind several of the 18 security-related procurement scams that spanned both the Moi and Kibaki administrations and collectively became known as the Anglo-Leasing cases. The term "Anglo-Leasing," in fact, comes from the name of a company that received substantial payments from the Kenyan government without delivering any goods or services in 2003-04. Much of the money was returned after the scandals were exposed in mid-2004. Upon investigation, Anglo-Leasing turned out to be a paper company without a physical presence registered in the UK in the name of Kamani's relatives.

19. (SBU) Kamani left the country under a cloud of suspicion in 2006 and was made ineligible for a U.S. visa in May 2006 under Section 212(f) of the Immigration and Nationality Act (INA). At that time, the KACC was offering a KSh 100,000 reward for anyone who assisted in